

The WTO and Dairy Trade Prospects

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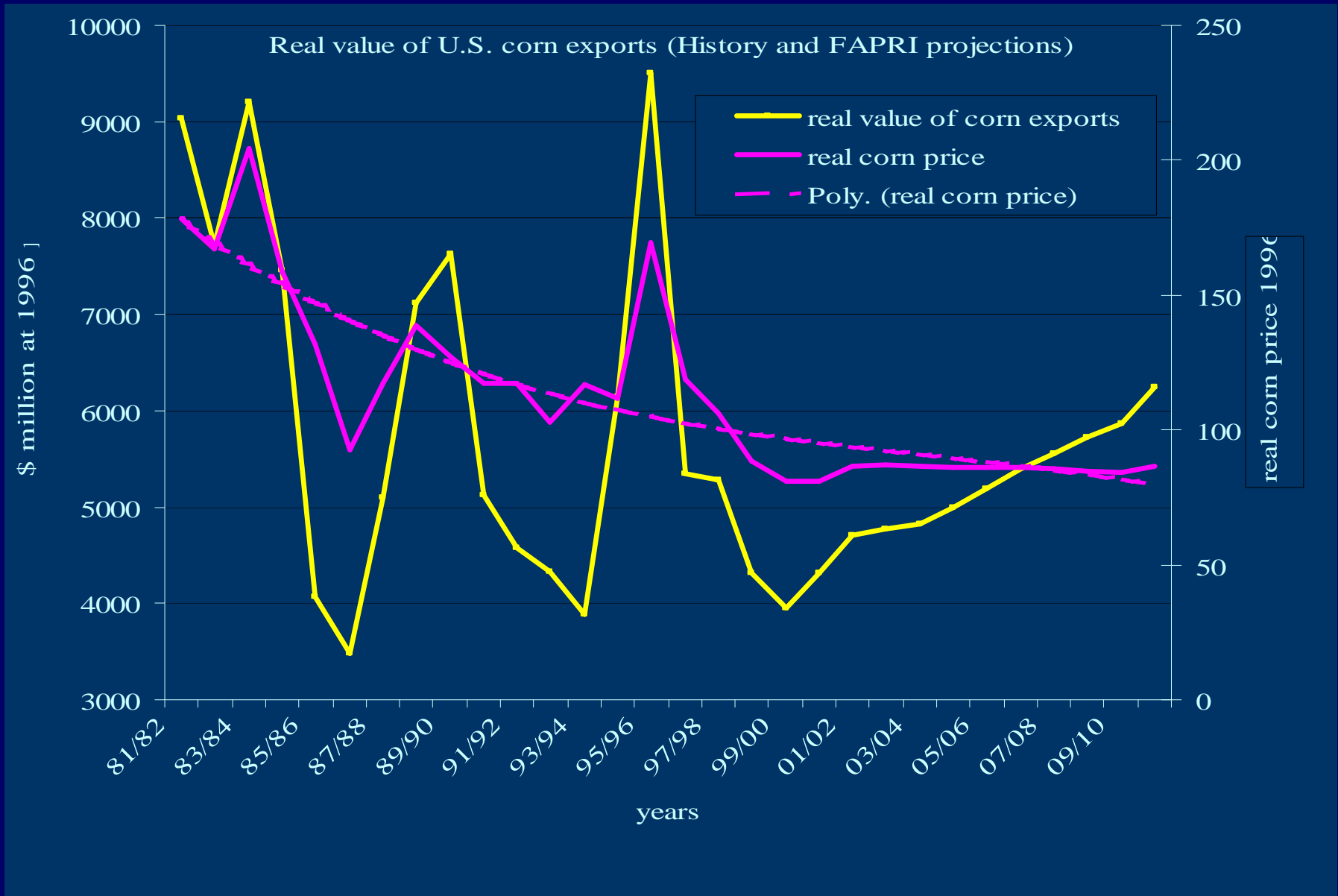
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The WTO and Dairy Trade Prospects

- Dimmed prospects for commodity trade.
- Better prospects for value-added products (dairy, vegetable oils).
- Dairy prospects in Asian markets:
 - China and WTO accession
 - Korea
- Dairy markets are distorted and closed.
- Why is the U.S. not a competitive dairy exporter?

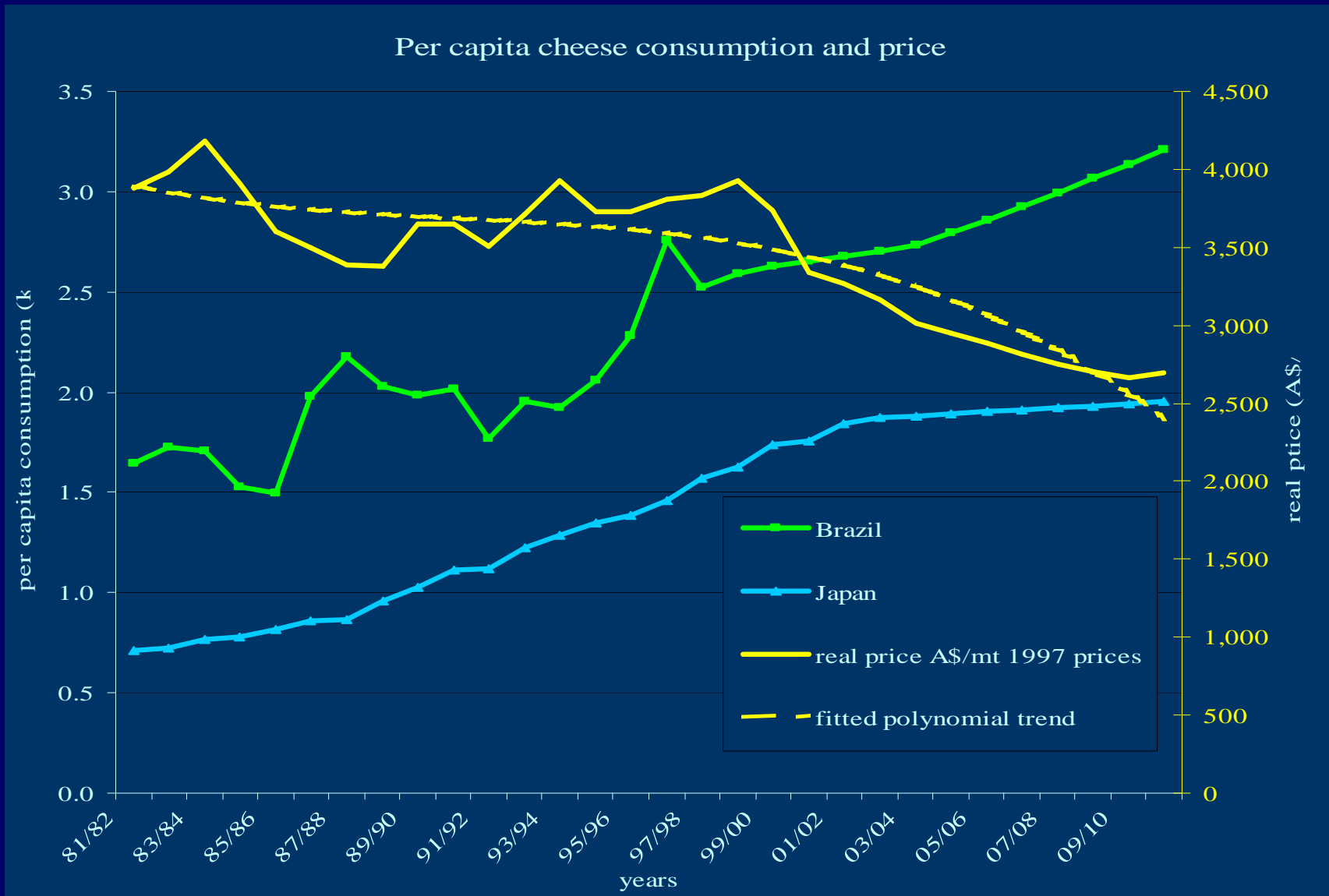
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Trade Expansion Possibilities for Bulk Commodities



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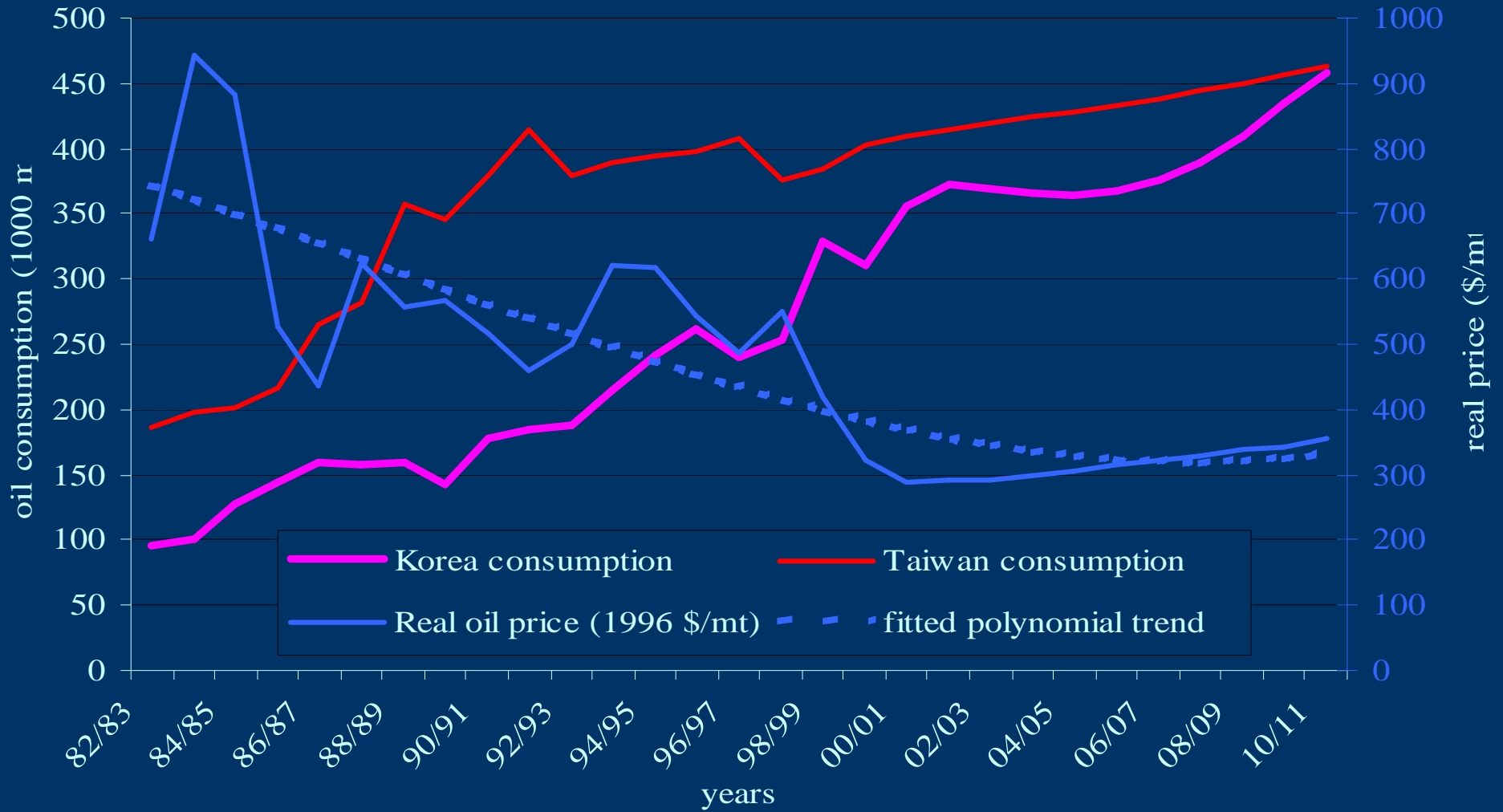
Cheese Consumption up but Cheese Price Stagnant to Declining



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Same Reality for Other Value-added Products

Soy oil consumption and real price

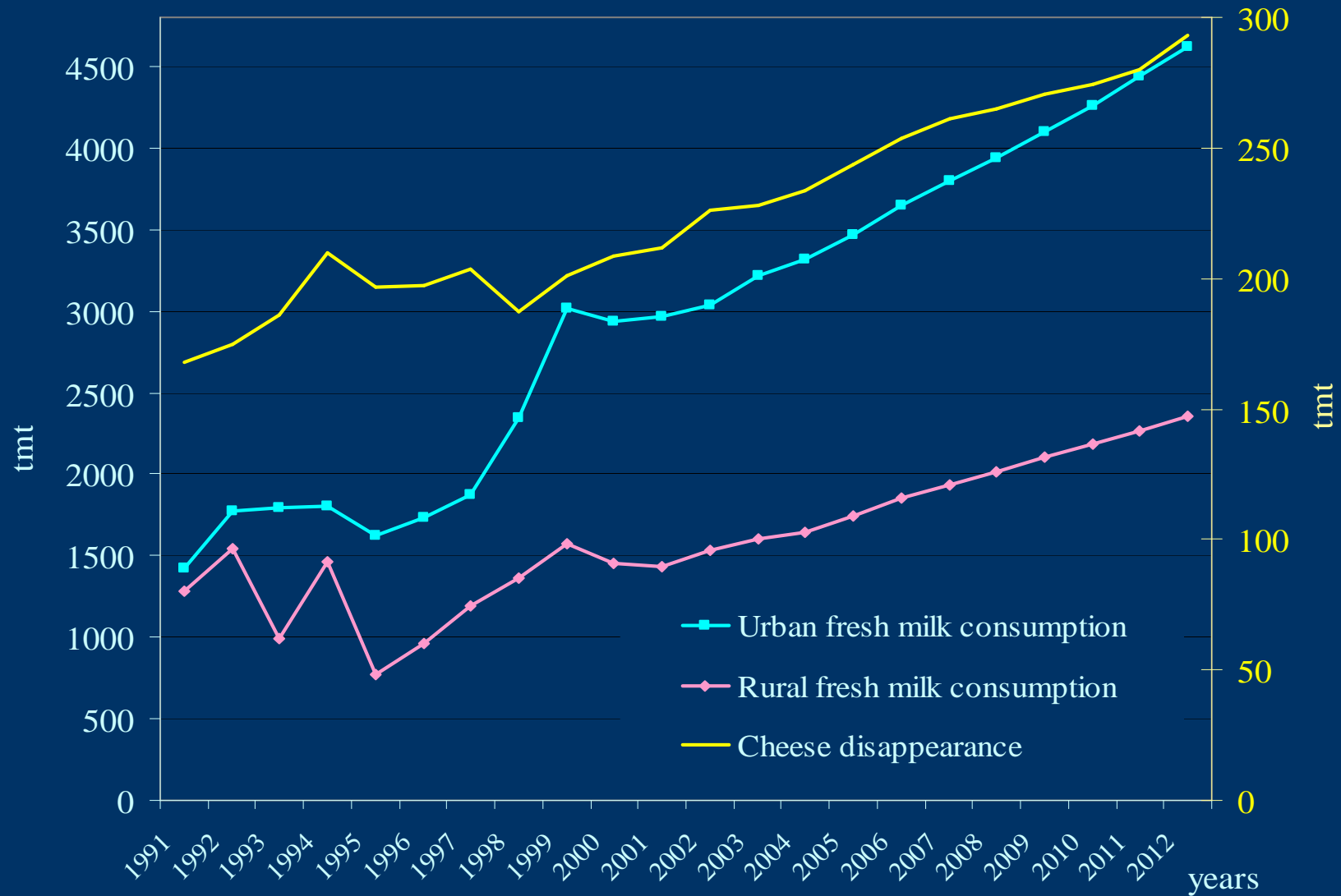


The WTO and Dairy Trade Prospects China

- Dairy consumption in China is changing quickly.
- It is urban for now, but just wait!
- Product quality is evolving fast.
- WTO membership facilitates opportunities for FDI in dairy industries.
- Tariffs will be decreasing quickly (from 50% to 12% on cheese, 50% to 10% on butter, etc...).
No TRQ on dairy commodities.
- CARD analysis indicates that WTO membership would increase cheese consumption by 12% in 2010, and cheese imports by 52%. Similar stories for NDM and butter consumption and trade.

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Dairy consumption in China (history and 2002 FAPRI outlook)



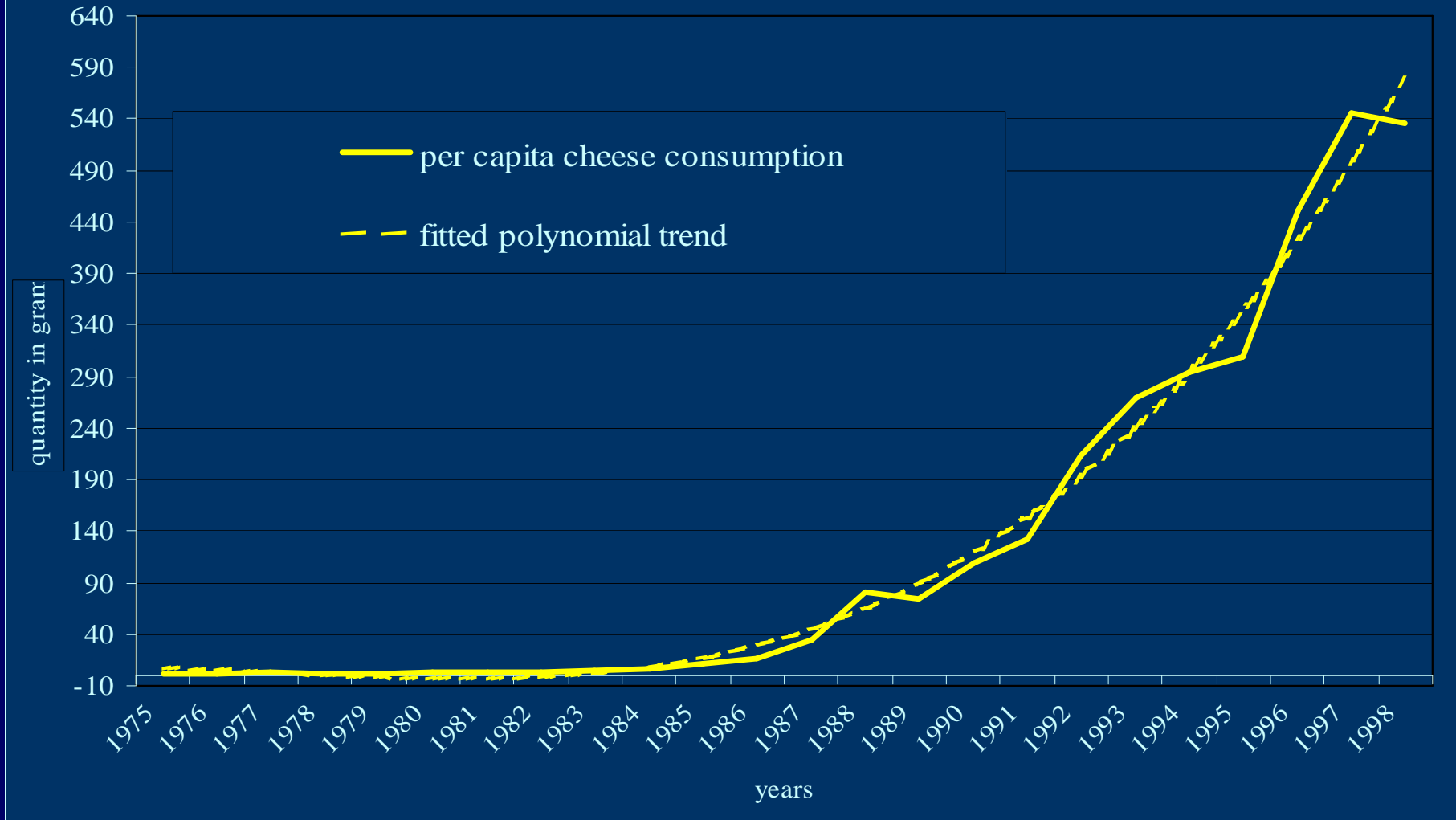
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South Korea

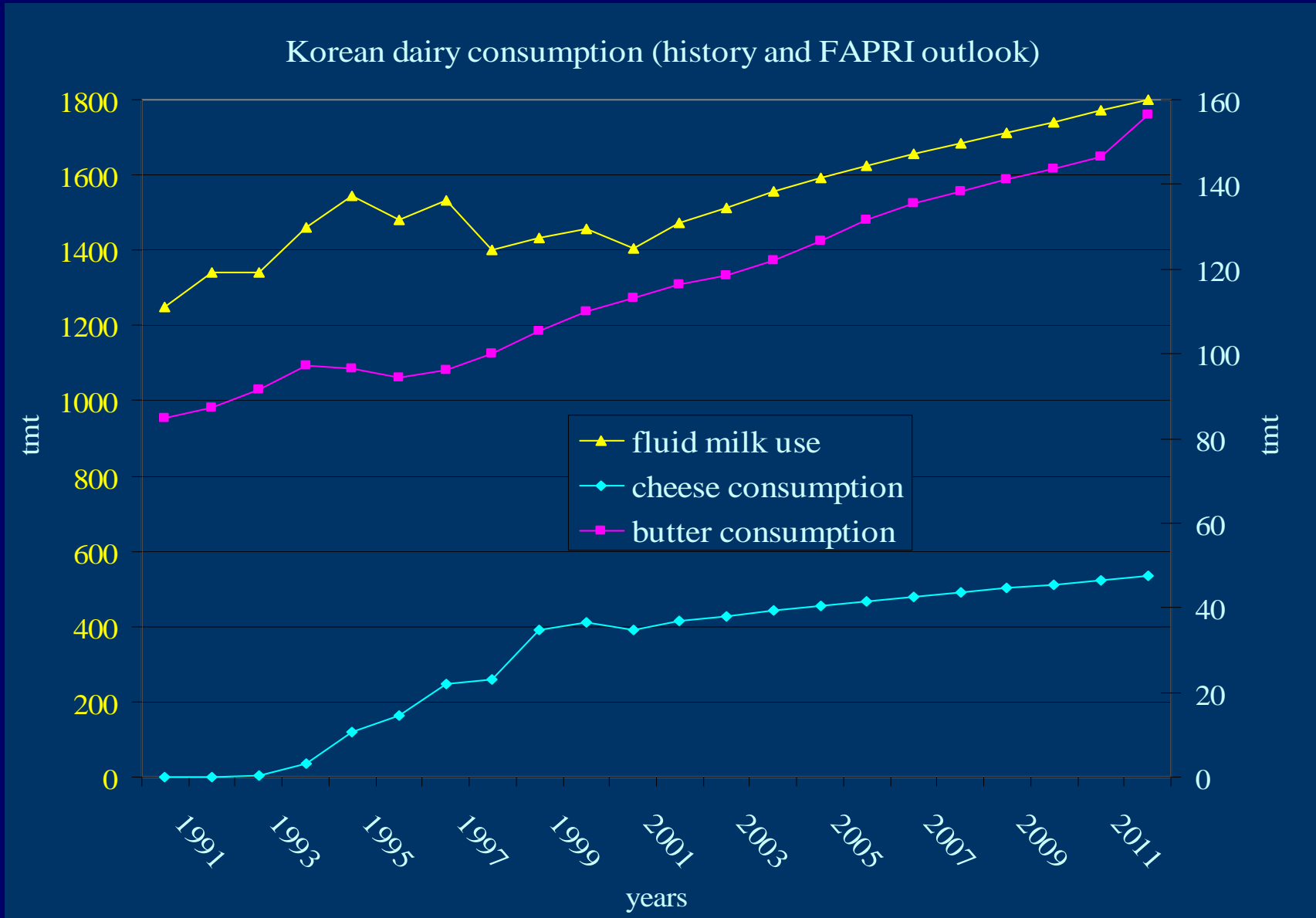
- South Korea is another promising market but...
- Borders are closed with skimpy TRQ allocations (e.g., 420 mt for butter in 2004).
- Prohibitive tariffs for out-of-quota imports and high tariff on in-quota imports (e.g., 89% tariff on out-of-quota butter and 40 % tariff on in-quota butter by 2004).
- Who would benefit if the Korean market opened?
(Consumers and competitive exporters)

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Cheese consumption in Korea per capita (Song and Sumner study)



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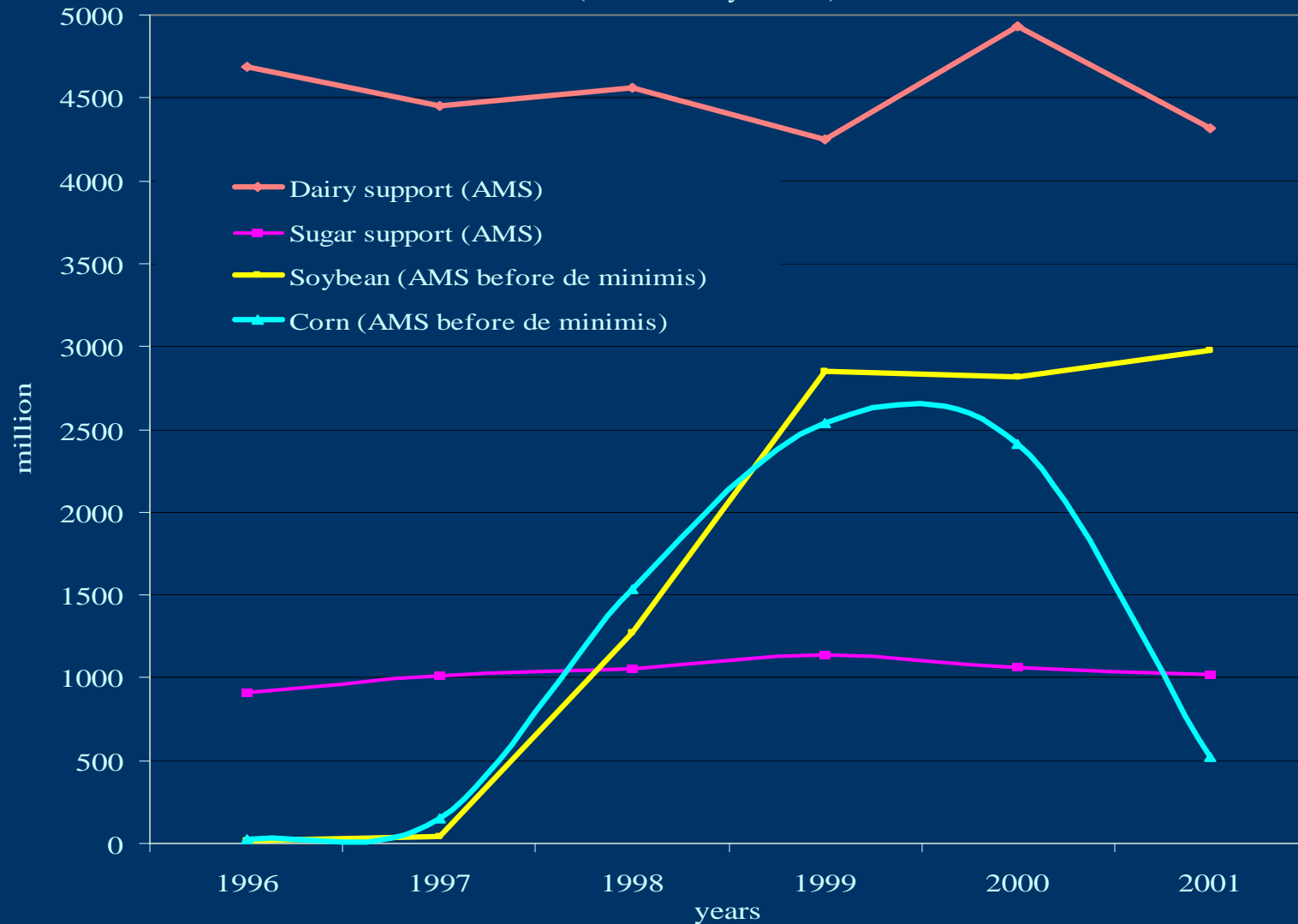
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Distortions in Dairy Markets

- Dairy markets are distorted in most countries.
- Policies are complex and arcane but in general protect farmers and tax users (processors, consumers).
- The EU competes "unfairly" with exports subsidies but product quality is excellent and differentiated.
- Many emerging markets are in Asia, but are often closed (see example of Korea).
- The U.S. is a major offender in the free trade game (lots of rhetoric but mostly mercantilism and good-old protectionism).
- Competitive exporting industries have to push politically (Northeast?) to put sacred cows on the block.

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**U.S. Sacred Cows:
Support for Dairy, Sugar, Corn, and Soybean**
(Estimated by CARD)



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Competitiveness of U.S. Dairy

- Why aren't we more competitive in dairy products (domestic choice and limited export ambition)?
- We have cheap feed, the genetics, the managerial input, the capital markets, the Italians, the entrepreneurs ...so what is missing?
- Cost reasons: milk is expensive.

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Competitiveness of U.S. Dairy

- Policy reasons:
 - trade restrictions make Italian and French cheese prohibitively expensive, limit competition, and restrict consumer choice. U.S. cheese makers can relax...
 - EU subsidies make it harder to compete in third markets.